

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

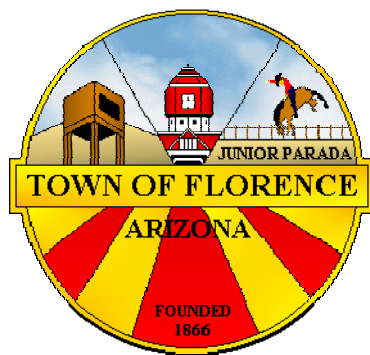


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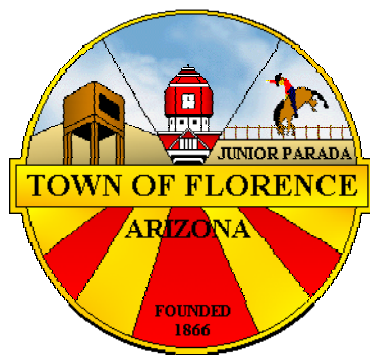
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FINANCIAL SECTION





HENRY & HORNE, LLP
Advisors to Business

Independent Auditors' Report

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the Town), Arizona, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence, Arizona, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the Town of Florence failed to use highway user revenue fund monies received by the Town of Florence pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the Town of Florence solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and Council
Town of Florence, Arizona
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

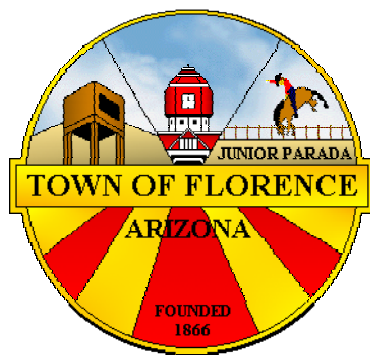
The management's discussion and analysis on pages 5 through 13, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Here, there, up

September 8, 2006

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

This discussion and analysis is intended to be an easily readable breakdown of the Town of Florence financial activities based on currently know facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter that begins on page one and the financial statements that follow.

Report Layout

Besides the Management's Discussion and Analysis, (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of nonmajor funds and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, culture and recreation, community services, public works and general governmental administration. Business-type activities are water, sewer, and sanitation. The government-wide statements include the Statement of Net Assets and Statement of Activities. The Town's component unit, the North Florence Improvement District No. 1, Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 is included within the government type activities.

Statement of Net Assets

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental and Business-type activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long term liabilities.

Net assets, the difference between assets and liabilities provide a measure of the Town's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the Town.

Statement of Activities

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. The Town's major funds are presented in a separate column titled, "Other Governmental Funds". For each major fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A is intended to explain significant changes in the financial position and differences in operations between current and prior years.

Town as a Whole

A condensed version of the Statement of Net Assets at June 30, 2006 follows.

Condensed Statement of Net Assets (in Thousands)						
	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 30,075	\$ 11,637	\$ 7,456	\$ 6,215	\$ 37,531	\$ 17,852
Capital assets	38,707	27,502	10,933	6,539	49,640	34,041
Total assets	<u>68,782</u>	<u>39,139</u>	<u>18,389</u>	<u>12,754</u>	<u>87,171</u>	<u>51,893</u>
Other liabilities	2,967	1,787	456	339	3,423	2,126
Long-term liabilities	7,231	2,880	4,834	673	12,065	3,553
Total liabilities	<u>10,198</u>	<u>4,667</u>	<u>5,290</u>	<u>1,012</u>	<u>15,488</u>	<u>5,679</u>
Net assets:						
Invested capital assets						
net of related debt	31,151	25,886	5,840	5,866	36,991	31,752
Restricted	21,237	14,221	795	-	22,032	14,221
Unrestricted	6,196	(5,635)	6,464	5,876	12,660	-
Total net assets	<u>\$ 58,584</u>	<u>\$ 34,472</u>	<u>\$ 13,099</u>	<u>\$ 11,742</u>	<u>\$ 71,683</u>	<u>\$ 241</u>

Statement of Net Assets at June 30, 2006:

During fiscal year 2005-2006 several major events changed the balance of net assets:

The Town's overall financial position has improved during the year as reflected in the increase in net assets above. Cash and investments increased \$35,278,000 due to increases in intergovernmental revenue, increases in user fees, and cost containment and acquisition of assets. Liabilities decreased due to paying off debt. Additionally the unrestricted net assets of both the governmental and business-type activities amount to \$58,584,000 and \$13,099,000 respectively. This provides a useful measure of the Town's net assets available for spending at the end of the fiscal year.

There are restrictions in net assets of governmental assets of \$21,237,000 business type activities of \$795,000. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation construction projects and the repayment of debt. Within the business type activities are bond proceeds, and debt service reserves.

Governmental Activities

Addition of Infrastructure: The largest change was the inclusion of general government capital assets and infrastructure (land, road and bridge improvements, streets, etc.). This was for annexation of various areas in fiscal year 2005-2006.

Infrastructure and other improvements total approximately \$49.7 million with street related components accounting for \$31.5 million of that entire total. The non-land portion of improvements, are now depreciated and the accumulated depreciation at year-end is \$24.2 million. Long term debt totaling \$7.5 million. The increase was due to Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2, political subdivisions of the Town, issuing bonds in the amounts \$5,019,000 to fund infrastructure.

Business –type Activities

Infrastructure and other improvements total approximately \$17.2 million. The non-land portion of improvements, are depreciated and the net value is \$5.4 million. Long term debt totaling \$5.1 million reflects monies borrowed from the Water Infrastructure Financing Authority for the new sewer plant which was estimated at \$7.5 million.

The Water Fund added \$34,778 in capital purchases. This included engineering on Project U-38 Waterline replacement \$1,150, engineering on Plant Road Water Line Extension \$5,520, Florence Gardens Water Line Extension \$17,416, engineering on Project U-34 Well #3 replacement \$3,398, project #U-42 purchase of water meters \$7,293.

The Florence Sewer Fund continued its Sewer Plant improvement project, expending \$4,695,026 for the construction of the Sewer Plant on Plant Road. Land was acquired in the amount of \$57,399 for utility easements.

The North Florence Sewer Fund expended \$11,955 in engineering fees for the Sewer Main Extension Project on Montana Street.

Statement of Activities for the Year Ended June 30, 2006:

A summary of the statement of activities follows:

	Changes in Net Assets (in Thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Program revenues						
Charges for services	\$ 4,176	\$ 1,066	\$ 3,625	\$ 3,339	\$ 7,801	\$ 4,405
Operating grants	328	144			328	144
Capital grants and contributions	186	902	645		831	902
General revenues					-	-
Taxes	2,350	1,692	-		2,350	1,692
Intergovernmental	8,215	6,478	-		8,215	6,478
Donation of capital assets	16,900	9,806	241		17,141	9,806
Miscellaneous	982	791	56	143	1,038	934
Total revenues	<u>33,137</u>	<u>20,879</u>	<u>4,567</u>	<u>3,482</u>	<u>37,704</u>	<u>24,361</u>
Expenses						
General government	2,895	1,541	-	-	2,895	1,541
Public safety	3,063	2,506	-	-	3,063	2,506
Highways and streets	2,100	1,821	-	-	2,100	1,821
Public works	50	1,122	-	-	50	1,122
Culture and recreation	1,248	793	-	-	1,248	793
Community development	530	306	-	-	530	306
Interest on long-term debt	198	-	-	670	198	670
Water	-	-	1,168	671	1,168	671
Sewer	-	-	817	458	817	458
Sanitation	-	-	510	424	510	424
North Florence Sewer	-	-	446	374	446	374
Total expenses	<u>10,084</u>	<u>8,089</u>	<u>2,941</u>	<u>2,597</u>	<u>13,025</u>	<u>10,686</u>
Excess before transfers	23,053	12,790	1,626	885	24,679	13,675
Transfers in (out)	270	270	(270)	(270)	-	-
Change in net assets	<u>23,323</u>	<u>13,060</u>	<u>1,356</u>	<u>615</u>	<u>24,679</u>	<u>13,675</u>
Beginning net assets	<u>35,261</u>	<u>21,412</u>	<u>11,742</u>	<u>11,127</u>	<u>47,003</u>	<u>32,539</u>
Ending net assets	<u>\$58,584</u>	<u>\$34,472</u>	<u>\$13,098</u>	<u>\$11,742</u>	<u>\$71,682</u>	<u>\$46,214</u>

Government Activities

The cost of all governmental activities this year was \$13 million. \$4.2 million of this cost was paid for by those who directly benefited from or contributed to the programs. \$514 thousand was subsidized by grants received from other governmental organizations for both capital and operating activities, and \$2.4 million was financed through general Town taxes. Other governmental revenues, including inter-governmental aid and interest amounted to \$9.2 million. Donations of capital assets was \$16.9 million.

The Town's governmental functions include the following: general government, community services, culture and recreation, public safety and public works.

Governmental program expenses increased from the prior year. Net costs of services decreased because of increased user fees.

Business-type Activities

The cost of providing all business-type activities this year was \$2.9 million. All of this cost was paid by users.

The Town's business-type programs include the following: water, sewer and sanitation.

North Florence Sewer fund did not generate enough revenue to cover the cost of operations during the current year. The deficit in these programs was offset by prior years fund balance.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006 the Town had invested \$69.9 million in capital assets as reflected in the following table. Assets increased from the prior year in the amount of \$17,333,762. Of the total additions reflected below, \$17,052,068 represents current year infrastructure additions. The majority of the increase in capital additions is due to the infrastructure assets acquired through annexation in the streets in the Governmental Activities. Accumulated depreciation reflects the allowance for aging of assets and the result of assets less accumulated depreciation equals the new value of fixed assets in total.

The following table reconciles the changes in capital assets.

	2005	Additions	Dispositions	2006
Total Town Assets	49,562,809	17,639,572	(305,809)	66,896,571
Depreciation	(15,521,739)	(1,949,206)	197,054	(17,256,334)
	\$34,041,070	\$15,690,366	(\$108,755)	\$49,640,237

Additional information of the Town of Florence capital assets can be found in the notes to the financial statements.

Debt Administration

As of year-end, the Town had \$12.6 million in debt outstanding compared to \$3.5 million last year. There were additions to debt to the Governmental Activities. A net reduction of \$362,846 in debt resulted in the Governmental Activities. Merrill Ranch Community Facilities District No. 1 and Merrill Ranch Community Facilities District No. 2 had debt issued in the amount of \$5,019,000.

Debt Schedule
30-Jun-06

Financing Agency	Purpose	Date of Loan	Interest Rate	Date of Maturity	Loan Amount	Amount Retired	Balance
National Bank of Arizona	Vehicle/Equipment	12/20/2000	7.13%	12/20/2010	\$600,000	\$576,138	\$23,862
Kansas State Bank	Copier	2/15/2001	6.35%	2/15/2006	\$23,500	\$23,500	\$0
Julie Giles	Land Purchase	1/2/2002	6.00%	7/1/2021	\$800,000	\$97,606	\$702,394
National Bank of Arizona	Streetlight Purchase	3/1/2003	3.00%	3/1/2010	\$219,000	\$95,986	\$123,014
Toshiba/Danka	Copier	10/22/2003		10/22/2005	\$21,544	\$18,404	\$3,140
	Purchase Asset of						
Bank of New York Trust	Utility Co.	Jan-94	8.45%	1/1/2019	\$1,525,000	\$760,000	\$765,000
U.S. Bank	Town Construction	Jan-97	5.40%	7/1/2009	\$2,495,000	\$1,575,000	\$920,000
Water Infrastructure Authority of Arizona	Sewer Expansion	3-Jan	3.339	3.339	\$7,500,000	\$509,328	\$5,093,191
Wells Fargo Bank	Infrastructure	6-Jun	4.30%	7/1/1930	\$2,464,000	\$0	\$2,464,000
Wells Fargo Bank	Infrastructure	6-Jun	4.30%	7/1/1930	\$2,555,000	\$0	\$2,555,000

Additional information on the Town of Florence long-term debt can be found in the notes to the financial statements.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or sewer services and recreational playground facilities may not exceed 20% of the Town's secondary assessed valuation. Under the second test, a Town may not insure general obligation debt for general municipal purposes in an amount that exceeds 6% of the Town's secondary assessed valuation.

Economic Factors

Governmental Funds

The Town relies heavily on state shared revenues. During the year 51% of the general fund revenues were derived from state shared revenues and 50% of the Highway User Fund revenues. Because of the correctional facilities located within the Town limits, the apportionment of state shared revenues has assisted the Town in providing increased demand for services in the municipal limits. The retail picture has not provided sufficient transaction privilege tax revenues to sustain the operational costs of general government. The retail picture will depend upon future development of housing, commercial and industrial business within the community.

The following business developments have provided additional resources for the Town:

- Pulte Development Corporation

- Dollar Store General
- Little Caesar's
- The Movie Gallery
- Florence Nails & Spa
- Handcuff's & Helmets
- Florence Farmer's Insurance
- Oliver Maud III-Real Estate Painting
- Oil Masters Lube N Tune
- Artie's on Main
- Martinez Electrical Corporation
- Florence Coin-op Laundry
- Jaclyn Porter's Dance Studios
- United Metro-Rinker
- R & B Demolition Services Inc.
- Compass One, LLC
- Red Bird Hills
- Made to Perfection
- Arizona Materials
- Ken's Korral
- Devries Backflow
- Acorn Soup
- L & C Industries, LLC
- Bridges Ol Boys Chuckwagon

Business-type Funds

The rates for the Sewer Funds in Florence were increased 47.6% starting in August 2005. This was to bring the revenues needed for support of the Debt Service for the new sewer plant.

A supplemental rate study was contracted with MuniFinancial to evaluate existing Utility Rates, Development Impact Fees and User Fees. The study started in July 2006 and utility rates will be completed by December 31, 2006 and Development Impact Fees by March, 2006. These studies will be based upon a draft Capital Improvement Plan and new operational costs.

Next Year's Budget and Rates

The 2006-2007 fiscal year operating budget increased over last year. The operating budget was prepared with a decrease in property tax rate from 97.88% to 91.34%. This is used to supplement the General Fund Revenues.

The 2006-2007 Capital Budgets for next year is limited to the following projects:

- General Fund for \$895,768 includes copiers, vehicles, furniture, equipment and improvements for various departments.
- Capital Project Fund \$5,222,000 for Town Construction projects.
- Highway User Fund for \$4,251,000 vehicles and equipment, and street and road improvements.
- Water Fund for \$1,243,500 for water meters, equipment, valves, hydrants, water line replacements and extensions, bore, and well replacement.

- Sewer Fund for \$2,575,488 for manhole replacements, main interceptor, wastewater master plan, sewer main extension and replacement, office improvements, one vehicle and sewer plant expansion, improvements and closure costs.
- North Florence Sewer Fund for \$92,500 a lift station, bore, and a vehicle.
- Sanitation Fund for \$230,000 for garbage truck replacements.
- Enterprise Impact Fee \$580,872 in various growth related projects
- Other Impact Fees \$3,822,000 in various growth related projects
- Various grants and special revenue for community improvements in the amount of \$2,862,300.

Town has set aside \$5,222,000 for capital projects for town facilities. The source of these funds comes from the General Fund, Construction Tax Fund and the 2% Food Tax Fund.

Total budget for town-wide Capital Improvement Projects is \$21,775,428. We have established two Streetlight Improvement Districts in the Pulte Development area. This will provide a revenue stream through ad-valorem property tax to pay for expenses of the streetlights that directly provide the benefits to the users of the SLID.

We have established two Community Facilities Districts. These Districts are political sub-division of the Town and have the ability to levy assessments and/or ad-valorem property tax to the owners of the properties within the districts. Funds are used to repay debt associated with the sale of bonds that pay for the infrastructure costs which provides a direct benefit to the users of the individual districts.

Monitoring of existing programs and services will be continued for Budget Year 2006-2007. Cost-to-benefit ratios have been established through the Town's financial policy, and services that do not meet the threshold will be recommended for termination. Personnel costs and benefits continue to be monitored.

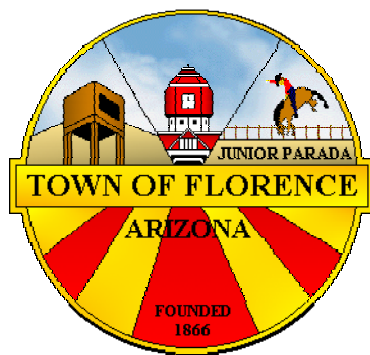
The Capital Improvement Plan has been updated by a draft CIP. This guideline will provide the town with a planning document to project capital purchases for the next seven years.

Financial Contact

The Town's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Finance Director at 775 North Main Street, Florence, Arizona 85232.

FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS



TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 22,272,585	\$ 6,433,796	\$ 28,706,381
Receivables (net of allowance for uncollectibles)	1,189,255	466,085	1,655,340
Special assessment receivable	5,714,098	-	5,714,098
Due from other governments	122,651	555,908	678,559
Deferred charges	406,018	-	406,018
Prepays	369,840	-	369,840
Capital assets:			
Land and construction in progress	21,850,376	5,531,056	27,381,432
Other capital assets (net of accumulated depreciation)	16,857,137	5,401,666	22,258,803
Total assets	<u>68,781,960</u>	<u>18,388,511</u>	<u>87,170,471</u>
LIABILITIES			
Accounts payable and other current liabilities	1,053,224	-	1,053,224
Customer deposits	51,572	71,616	123,188
Accrued wages and benefits	158,772	-	158,772
Accrued interest payable	100,255	-	100,255
Unearned revenue	1,130,241	102,510	1,232,751
Current portion of:			
Compensated absences	147,392	22,665	170,057
Capital leases	58,466	-	58,466
Certificates of Participation	210,000	-	210,000
Notes payable	27,604	267,489	295,093
Bonds payable	30,000	-	30,000
Long-term portion of:			
Capital leases	91,550	-	91,550
Certificates of Participation	710,000	-	710,000
Notes payable	674,790	4,825,702	5,500,492
Bonds payable	5,754,000	-	5,754,000
Total liabilities	<u>10,197,866</u>	<u>5,289,982</u>	<u>15,487,848</u>
NET ASSETS			
Invested in capital assets, net of related debt	31,151,103	5,839,531	36,990,634
Restricted for:			
Highways and streets	6,201,090	-	6,201,090
Grant purposes	96,201	-	96,201
Debt service	8,783,177	413,644	9,196,821
Special revenues	130,139	-	130,139
Capital projects	6,026,529	381,653	6,408,182
Unrestricted	6,195,855	6,463,701	12,659,556
Total net assets	<u>\$ 58,584,094</u>	<u>\$ 13,098,529</u>	<u>\$ 71,682,623</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,894,997	\$ 1,849,897	\$ 95,491	\$ -
Public safety	3,062,938	117,558	44,229	158,721
Highways and streets	2,100,353	-	36,899	-
Public works	49,673	-	-	5,045,797
Culture and recreation	1,248,161	9,520	21,820	-
Community development	530,069	2,199,167	129,890	-
Interest on long-term debt	198,000	-	-	-
Total governmental activities	<u>10,084,191</u>	<u>4,176,142</u>	<u>328,329</u>	<u>5,204,518</u>
Business-type activities:				
Water	1,168,376	1,495,620	-	13,088
Sewer	817,496	1,304,741	-	556,467
Sanitation	509,602	531,440	-	75,480
North Florence Sewer	445,697	293,163	-	-
Total business-type activities	<u>2,941,171</u>	<u>3,624,964</u>	<u>-</u>	<u>645,035</u>
Total primary government	<u>\$ 13,025,362</u>	<u>\$ 7,801,106</u>	<u>\$ 328,329</u>	<u>\$ 5,849,553</u>

General revenues:

Property taxes

Sales and use taxes

Franchise taxes

Shared revenues:

State sales taxes

Urban revenue sharing

Auto-in-lieu

Half-cent sales tax

Other

Donation of capital assets

Investment earnings

Miscellaneous

Transfers in (out)

Total general revenues and transfers

Change in net assets

Net assets-beginning

Net assets-ending

See accompanying notes.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (949,609)	\$ -	\$ (949,609)
(2,742,430)	-	(2,742,430)
(2,063,454)	-	(2,063,454)
4,996,124	-	4,996,124
(1,216,821)	-	(1,216,821)
1,798,988	-	1,798,988
(198,000)	-	(198,000)
<u>(375,202)</u>	<u>-</u>	<u>(375,202)</u>
-	340,332	340,332
-	1,043,712	1,043,712
-	97,318	97,318
-	(152,534)	(152,534)
<u>-</u>	<u>1,328,828</u>	<u>1,328,828</u>
<u>(375,202)</u>	<u>1,328,828</u>	<u>953,626</u>
277,249	-	277,249
1,841,988	-	1,841,988
231,441	-	231,441
3,630,352	-	3,630,352
1,801,667	-	1,801,667
1,072,559	-	1,072,559
1,624,595	-	1,624,595
84,985	-	84,985
11,880,996	-	11,880,996
539,299	240,958	780,257
443,340	56,795	500,135
269,736	(269,736)	-
<u>23,698,207</u>	<u>28,017</u>	<u>23,726,224</u>
23,323,005	1,356,845	24,679,850
35,261,089	11,741,684	47,002,773
<u>\$ 58,584,094</u>	<u>\$ 13,098,529</u>	<u>\$ 71,682,623</u>

TOWN OF FLORENCE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

ASSETS	General	Highway User	Impact Fees
Cash and cash equivalents	\$ 1,363,147	\$ 5,888,388	\$ 2,664,448
Receivables (net of allowance for uncollectibles)	811,670	336,711	14,109
Due from other governments	-	-	-
Prepays	369,840	-	-
Total assets	<u>\$ 2,544,657</u>	<u>\$ 6,225,099</u>	<u>\$ 2,678,557</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 915,039	\$ -	\$ -
Customer deposits	51,572	-	-
Accrued wages and benefits	158,785	-	-
Deferred revenue	-	-	1,128,175
Total liabilities	<u>1,125,396</u>	<u>-</u>	<u>1,128,175</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Operations	1,419,261	534,232	-
Unreserved, reported in:			
Special revenue funds	-	5,690,867	1,550,382
Capital projects funds	-	-	-
Total fund balances	<u>1,419,261</u>	<u>6,225,099</u>	<u>1,550,382</u>
Total liabilities and fund balance	<u>\$ 2,544,657</u>	<u>\$ 6,225,099</u>	<u>\$ 2,678,557</u>

See accompanying notes.

Community Facilities Districts- Debt Service	Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,593,304	\$ 4,614,169	\$ 3,149,129	\$ 22,272,585
5,019,000	910	-	720,953	6,903,353
-	-	-	122,651	122,651
-	-	-	-	369,840
<u>\$ 5,019,000</u>	<u>\$ 4,594,214</u>	<u>\$ 4,614,169</u>	<u>\$ 3,992,733</u>	<u>\$ 29,668,429</u>
\$ -	\$ -	\$ 138,022	\$ 150	\$ 1,053,211
-	-	-	-	51,572
-	-	-	-	158,785
5,019,000	-	-	697,164	6,844,339
<u>5,019,000</u>	<u>-</u>	<u>138,022</u>	<u>697,314</u>	<u>8,107,907</u>
-	-	-	130,139	130,139
-	-	-	-	1,953,493
-	-	-	3,165,280	10,406,529
-	4,594,214	4,476,147	-	9,070,361
<u>-</u>	<u>4,594,214</u>	<u>4,476,147</u>	<u>3,295,419</u>	<u>21,560,522</u>
<u>\$ 5,019,000</u>	<u>\$ 4,594,214</u>	<u>\$ 4,614,169</u>	<u>\$ 3,992,733</u>	<u>\$ 29,668,429</u>

TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2006

Fund balance - total governmental funds balance sheet	\$21,560,522
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds.

Governmental capital assets	\$ 49,710,528	
Less accumulated depreciation	<u>(11,003,015)</u>	38,707,513

Long-term liabilities, including bonds payable and their related
costs, are not due and payable in the current period and therefore
are not reported in the funds.

Compensated absences	(147,392)	
Capital leases	(150,016)	
Certificate of participation	(920,000)	
Notes payable	(702,394)	
Bond issuance costs	406,018	
Bonds payable	<u>(5,784,000)</u>	(7,297,784)

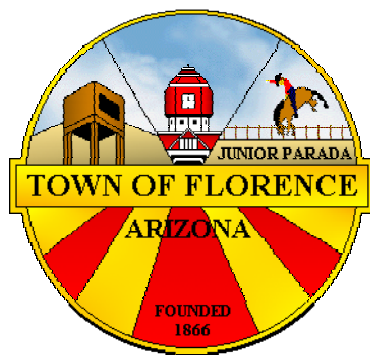
Deferred revenue is shown on the governmental funds, but is not
deferred on the statement of net assets.

Special assessments	5,714,098
---------------------	-----------

Interest payable on long-term debt is not reported in the
governmental funds.

<u>(100,255)</u>

Net assets of governmental activities - statement of net assets	<u><u>\$58,584,094</u></u>
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TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

REVENUES	General	Highway User	Impact Fees
Taxes	\$ 1,418,395	\$ 3,433,134	\$ -
Franchise fees	231,441	-	-
Licenses and permits	745,510	-	-
Intergovernmental revenues	4,697,055	84,964	-
Charges for services	1,992,730	-	1,269,348
Fines	51,229	-	-
Special assessments	-	-	-
Investment earnings	190,418	194,988	51,989
Contributions and donations	25,150	6,000	-
Miscellaneous	102,722	37,452	-
Total revenues	<u>9,454,650</u>	<u>3,756,538</u>	<u>1,321,337</u>
EXPENDITURES			
Current:			
General government	2,021,999	-	-
Public safety	3,098,633	-	-
Highways and streets	-	986,405	-
Public works	-	-	-
Culture and recreation	1,185,801	-	-
Community development	446,304	-	-
Capital outlay	157,695	442,494	-
Debt service:			
Principal	277,080	35,656	-
Interest and fiscal charges	102,219	4,566	-
Total expenditures	<u>7,289,731</u>	<u>1,469,121</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,164,919</u>	<u>2,287,417</u>	<u>1,321,337</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	493,874	9,620	-
Transfers out	(4,626,609)	(130,260)	-
Proceeds from obligations	-	-	-
Total other financing sources and uses	<u>(4,132,735)</u>	<u>(120,640)</u>	<u>-</u>
Net change in fund balances	<u>(1,967,816)</u>	<u>2,166,777</u>	<u>1,321,337</u>
Fund balances - beginning of year	<u>3,387,077</u>	<u>4,058,322</u>	<u>229,045</u>
Fund balances - end of year	<u>\$ 1,419,261</u>	<u>\$ 6,225,099</u>	<u>\$ 1,550,382</u>

See accompanying notes.

Community Facilities Districts- Debt Service	Capital Improvements	Community Facilities Districts- Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 700,842	\$ 5,552,371
-	-	-	-	231,441
-	-	-	-	745,510
-	-	-	415,329	5,197,348
-	-	-	110,806	3,372,884
-	-	-	6,519	57,748
-	-	-	120,463	120,463
-	-	1,187	100,717	539,299
-	-	-	39,576	70,726
-	1,399	-	301,767	443,340
-	1,399	1,187	1,796,019	16,331,130
-	1,399	544,040	58,262	2,625,700
-	-	-	97,977	3,196,610
-	-	-	-	986,405
-	-	-	1,328	1,328
-	-	-	-	1,185,801
-	-	-	198,203	644,507
-	109,046	-	254,727	963,962
-	-	-	30,000	342,736
-	-	-	65,910	172,695
-	110,445	544,040	706,407	10,119,744
-	(109,046)	(542,853)	1,089,612	6,211,386
-	4,703,260	-	61,644	5,268,398
-	-	-	(241,793)	(4,998,662)
-	-	5,019,000	-	5,019,000
-	4,703,260	5,019,000	(180,149)	5,288,736
-	4,594,214	4,476,147	909,463	11,500,122
-	-	-	2,385,956	10,060,400
\$ -	\$ 4,594,214	\$ 4,476,147	\$ 3,295,419	\$ 21,560,522

TOWN OF FLORENCE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 11,500,122

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.
Also, assets contributed to the Town are not reported in the fund
statements and are reported in the statement of activities.

Contributions	\$ 11,880,996	
Sale of capital assets	(108,480)	
Expenditures for capitalized assets	962,719	
Less current year depreciation	<u>(1,530,038)</u>	11,205,197

Revenues received in the current year that were accrued in the
statement of activities in prior years

Special assessments	(93,666)
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Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the funds.

Special assessments	5,019,000
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Interest expense in the statement of activities differs from the amount
reported in governmental funds because accrued interest was
calculated for outstanding debt for the statement of activities, but is
expensed when due for the governmental fund statements.

(24,710)

Repayment of long-term debt are expenditures in the governmental
funds, but the repayment reduces long-term liabilities in the statement
of net assets.

Issuance of bond debt	(5,019,000)	
Bond issuance costs	406,018	
Capital lease principal retirement	86,694	
Certificate of participation principal retirement	200,000	
Note payable principal retirement	26,042	
Bond principal retirement	<u>30,000</u>	(4,270,246)

Compensated absences expenses reported in the statement of activities
do not require the use of current financial resources and therefore are
not reported as expenditures in governmental funds.

<u>(12,692)</u>

Change in net assets of governmental activities

<u>\$ 23,323,005</u>

TOWN OF FLORENCE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 1,130,669	\$ 1,130,669	\$ 1,418,395	\$ 287,726
Franchise fees	220,000	220,000	231,441	11,441
Licenses and permits	72,500	72,500	745,510	673,010
Intergovernmental revenues	4,151,088	4,151,088	4,697,055	545,967
Charges for services	444,775	444,775	1,992,730	1,547,955
Fines	39,200	39,200	51,229	12,029
Investment earnings	31,000	31,000	190,418	159,418
Contributions and donations	-	-	25,150	25,150
Miscellaneous	30,200	30,200	102,722	72,522
Total revenues	<u>6,119,432</u>	<u>6,119,432</u>	<u>9,454,650</u>	<u>3,335,218</u>
EXPENDITURES				
Current:				
General government	1,930,541	1,930,541	2,021,999	(91,458)
Public safety	3,049,663	3,049,663	3,098,633	(48,970)
Culture and recreation	1,257,095	1,257,095	1,185,801	71,294
Community development	325,345	325,345	446,304	(120,959)
Capital outlay	166,500	166,500	157,695	8,805
Debt service:				
Principal	278,208	278,208	277,080	1,128
Interest and fiscal charges	101,279	101,279	102,219	(940)
Total expenditures	<u>7,108,631</u>	<u>7,108,631</u>	<u>7,289,731</u>	<u>(181,100)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(989,199)</u>	<u>(989,199)</u>	<u>2,164,919</u>	<u>3,154,118</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	432,000	432,000	493,874	61,874
Transfers out	<u>(104,100)</u>	<u>(104,100)</u>	<u>(4,626,609)</u>	<u>(4,522,509)</u>
Total other financing sources and uses	<u>327,900</u>	<u>327,900</u>	<u>(4,132,735)</u>	<u>(4,460,635)</u>
Net change in fund balance	<u>(661,299)</u>	<u>(661,299)</u>	<u>(1,967,816)</u>	<u>(1,306,517)</u>
Fund balance - beginning of year	3,387,077	3,387,077	3,387,077	-
Fund balance - end of year	<u>\$ 2,725,778</u>	<u>\$ 2,725,778</u>	<u>\$ 1,419,261</u>	<u>\$ (1,306,517)</u>

TOWN OF FLORENCE, ARIZONA
HIGHWAY USER FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 2,696,429	\$ 2,696,429	\$ 3,433,134	\$ 736,705
Intergovernmental revenues	85,002	85,002	84,964	(38)
Investment earnings	35,000	35,000	194,988	159,988
Contributions and donations	-	-	6,000	6,000
Miscellaneous	66,875	66,875	37,452	(29,423)
Total revenues	<u>2,883,306</u>	<u>2,883,306</u>	<u>3,756,538</u>	<u>873,232</u>
EXPENDITURES				
Current:				
Highways and streets	1,430,702	1,430,702	986,405	444,297
Capital outlay	4,233,490	4,233,490	442,494	3,790,996
Debt service:				
Principal	35,656	35,656	35,656	-
Interest and fiscal charges	4,566	4,566	4,566	-
Total expenditures	<u>5,704,414</u>	<u>5,704,414</u>	<u>1,469,121</u>	<u>4,235,293</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,821,108)</u>	<u>(2,821,108)</u>	<u>2,287,417</u>	<u>5,108,525</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	9,620	9,620
Transfers out	<u>(130,265)</u>	<u>(130,265)</u>	<u>(130,260)</u>	<u>5</u>
Total other financing sources and uses	<u>(130,265)</u>	<u>(130,265)</u>	<u>(120,640)</u>	<u>9,625</u>
Net change in fund balance	<u>(2,951,373)</u>	<u>(2,951,373)</u>	<u>2,166,777</u>	<u>5,118,150</u>
Fund balance - beginning of year	<u>4,058,322</u>	<u>4,058,322</u>	<u>4,058,322</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,106,949</u>	<u>\$ 1,106,949</u>	<u>\$ 6,225,099</u>	<u>\$ 5,118,150</u>

TOWN OF FLORENCE, ARIZONA
IMPACT FEES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
REVENUES	Original	Final	Actual Amounts	
Charges for services	\$ 175,000	\$ 175,000	\$ 1,269,348	\$ 1,094,348
Investment earnings	-	-	51,989	51,989
Total revenues	175,000	175,000	1,321,337	1,146,337
EXPENDITURES				
Current:				
Capital outlay	339,000	339,000	-	339,000
Total expenditures	339,000	339,000	-	339,000
Excess (deficiency) of revenues over (under) expenditures	(164,000)	(164,000)	1,321,337	1,485,337
Net change in fund balance	(164,000)	(164,000)	1,321,337	1,485,337
Fund balance - beginning of year	229,045	229,045	229,045	-
Fund balance - end of year	\$ 65,045	\$ 65,045	\$ 1,550,382	\$ 1,485,337

TOWN OF FLORENCE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities-Enterprise Funds		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,978,769	\$ 2,207,741	\$ 324,008
Receivables, net of uncollectibles	166,610	785,363	46,289
Total current assets	<u>3,145,379</u>	<u>2,993,104</u>	<u>370,297</u>
Capital assets:			
Land	120,100	224,064	-
Buildings and improvements	4,144,258	4,597,376	-
Machinery and equipment	541,554	180,852	691,633
Construction in progress	-	5,136,983	-
Less accumulated depreciation	<u>(2,652,999)</u>	<u>(2,156,277)</u>	<u>(600,984)</u>
Total capital assets, net	<u>2,152,913</u>	<u>7,982,998</u>	<u>90,649</u>
Total noncurrent assets	<u>2,152,913</u>	<u>7,982,998</u>	<u>90,649</u>
Total assets	<u>5,298,292</u>	<u>10,976,102</u>	<u>460,946</u>
LIABILITIES			
Current liabilities:			
Customer deposits	71,616	-	-
Deferred revenue	-	-	102,510
Compensated absences	9,895	4,948	2,874
Notes payable	-	267,489	-
Total current liabilities	<u>81,511</u>	<u>272,437</u>	<u>105,384</u>
Noncurrent liabilities:			
Notes payable	-	4,825,702	-
Total noncurrent liabilities	<u>-</u>	<u>4,825,702</u>	<u>-</u>
Total liabilities	<u>81,511</u>	<u>5,098,139</u>	<u>105,384</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,152,913	2,889,807	90,649
Restricted for:			
Debt service	-	413,644	-
Capital projects	79,846	224,266	77,541
Unrestricted	2,984,022	2,350,246	187,372
Total net assets	<u>\$ 5,216,781</u>	<u>\$ 5,877,963</u>	<u>\$ 355,562</u>

See accompanying notes.

Business-type Activities
Enterprise Funds

North Florence	
Sewer	Total
\$ 923,278	\$ 6,433,796
23,731	1,021,993
<u>947,009</u>	<u>7,455,789</u>
49,909	394,073
1,411,878	10,153,512
87,437	1,501,476
-	5,136,983
<u>(843,062)</u>	<u>(6,253,322)</u>
<u>706,162</u>	<u>10,932,722</u>
<u>706,162</u>	<u>10,932,722</u>
<u>1,653,171</u>	<u>18,388,511</u>
-	71,616
-	102,510
4,948	22,665
-	267,489
<u>4,948</u>	<u>464,280</u>
-	4,825,702
-	4,825,702
<u>4,948</u>	<u>5,289,982</u>
706,162	5,839,531
-	413,644
-	381,653
942,061	6,463,701
<u>\$ 1,648,223</u>	<u>\$ 13,098,529</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended June 30, 2006

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Operating revenues:			
Development fees	\$ 13,088	\$ 149,068	\$ 75,480
Water sales	1,286,240	-	-
Water connection fees	43,368	-	-
Service establishment fees	19,008	-	-
Sewer service fees	-	903,534	-
Sewer connection fees	-	38,978	-
DOC usage fees	-	362,229	-
Water standpipe	3,865	-	-
Hydro-sprinkler fees	35,376	-	-
Central Arizona Project	98,304	-	-
Refuse collection fees	-	-	531,440
Effluent charges	9,459	-	-
Miscellaneous	8,715	58,156	44,449
Total operating revenue	<u>1,517,423</u>	<u>1,511,965</u>	<u>651,369</u>
Operating expenses:			
Personal services	206,790	126,377	170,094
Supplies	36,830	96,879	75,981
Contractual services and maintenance	739,900	415,339	208,770
Depreciation	184,856	98,132	54,757
Total operating expenses	<u>1,168,376</u>	<u>736,727</u>	<u>509,602</u>
Operating income (loss)	<u>349,047</u>	<u>775,238</u>	<u>141,767</u>
Nonoperating revenues (expense):			
Interest income	112,878	84,940	6,365
Interest expense	-	(80,770)	-
Total nonoperating revenues (expense)	<u>112,878</u>	<u>4,170</u>	<u>6,365</u>
Income (loss) before transfers	461,925	779,408	148,132
Capital contributions	-	350,000	-
Transfers out	(133,404)	(47,616)	(44,028)
Change in net assets	328,521	1,081,792	104,104
Total net assets-beginning of year	4,888,260	4,796,171	251,458
Total net assets-end of year	<u>\$ 5,216,781</u>	<u>\$ 5,877,963</u>	<u>\$ 355,562</u>

See accompanying notes.

Business-type Activities
Enterprise Funds

North Florence	
Sewer	Total
\$ -	\$ 237,636
-	1,286,240
-	43,368
-	19,008
283,563	1,187,097
9,600	48,578
-	362,229
-	3,865
-	35,376
-	98,304
-	531,440
-	9,459
2,874	114,194
<u>296,037</u>	<u>3,976,794</u>
129,809	633,070
18,920	228,610
229,524	1,593,533
67,443	405,188
<u>445,696</u>	<u>2,860,401</u>
<u>(149,659)</u>	<u>1,116,393</u>
36,775	240,958
-	(80,770)
<u>36,775</u>	<u>160,188</u>
(112,884)	1,276,581
-	350,000
<u>(44,688)</u>	<u>(269,736)</u>
<u>(157,572)</u>	<u>1,356,845</u>
1,805,795	11,741,684
<u>\$ 1,648,223</u>	<u>\$ 13,098,529</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2006

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,479,697	\$ 867,281	\$ 657,562
Payments to suppliers	(776,069)	(762,218)	(284,751)
Payments to employees	(208,033)	(126,998)	(169,442)
Net cash provided (used) by operating activities	495,595	(21,935)	203,369
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(133,404)	(47,616)	(44,028)
Net cash used by noncapital financing activities	(133,404)	(47,616)	(44,028)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(34,777)	(4,402,423)	-
Deferred developer revenue	-	-	102,510
Proceeds from capital debt	-	4,679,342	-
Principal paid on capital debt	-	(258,846)	-
Interest paid on capital debt	-	(80,770)	-
Net cash provided (used) by capital and related financing activities	(34,777)	(62,697)	102,510
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	105,109	76,510	4,985
Net cash provided by investing activities	105,109	76,510	4,985
Net increase (decrease) in cash and cash equivalents	432,523	(55,738)	266,836
Cash and cash equivalents at beginning of year	2,546,246	2,263,479	57,172
Cash and cash equivalents at end of year	\$ 2,978,769	\$ 2,207,741	\$ 324,008

See accompanying notes.

Business-type Activities-Enterprise Funds	
North Florence	
Sewer	Total
\$ 312,010	\$ 3,316,550
(248,444)	(2,071,482)
(130,430)	(634,903)
(66,864)	610,165
(44,688)	(269,736)
(44,688)	(269,736)
(11,955)	(4,449,155)
-	102,510
-	4,679,342
-	(258,846)
-	(80,770)
(11,955)	(6,919)
35,301	221,905
35,301	221,905
(88,206)	555,415
1,011,484	5,878,381
\$ 923,278	\$ 6,433,796

TOWN OF FLORENCE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
For The Year Ended June 30, 2006

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 349,047	\$ 775,238	\$ 141,767
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	184,856	98,132	54,757
(Increase) decrease in accounts receivable	(44,453)	(88,776)	6,193
(Increase) decrease in due from governments	-	(555,908)	-
Increase (decrease) in accounts payable	661	(250,000)	-
Increase (decrease) in customer deposits	6,727	-	-
Increase (decrease) in compensated absences	(1,243)	(621)	652
Total adjustments	146,548	(797,173)	61,602
Net cash provided (used) by operating activities	\$ 495,595	\$ (21,935)	\$ 203,369
Noncash investing, capital, and financing activities:			
Contributions of capital assets	\$ -	\$ 350,000	\$ -

See accompanying notes.

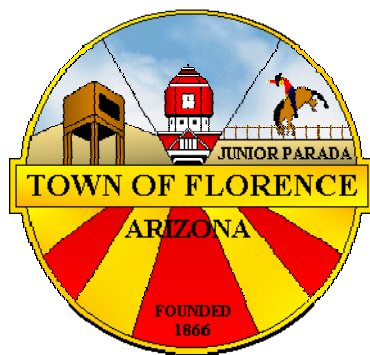
Business-type Activities-Enterprise Funds	
North Florence	
Sewer	Total
<u>\$ (149,659)</u>	<u>\$ 1,116,393</u>
67,443	405,188
15,973	(111,063)
-	(555,908)
-	(249,339)
-	6,727
(621)	(1,833)
<u>82,795</u>	<u>(506,228)</u>
<u>\$ (66,864)</u>	<u>\$ 610,165</u>
<u>\$ -</u>	<u>\$ 350,000</u>

TOWN OF FLORENCE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	<u>\$ 249,986</u>
Total assets	<u>249,986</u>
LIABILITIES	
Accounts payable	<u>1,797</u>
Total liabilities	<u>1,797</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$ 248,189</u></u>

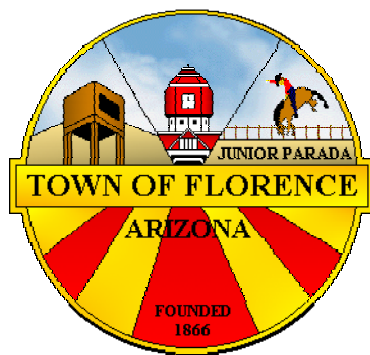
TOWN OF FLORENCE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Pension Trust</u>
ADDITIONS	
Contributions:	
Employee	<u>\$ 5,549</u>
Total contributions	<u> 5,549</u>
Investment earnings:	
Interest	<u> 9,829</u>
Total investment earnings	<u> 9,829</u>
Total additions	<u> 15,378</u>
DEDUCTIONS	
Pension withdrawals	<u> 8,433</u>
Total deductions	<u> 8,433</u>
Change in net assets	6,945
Net assets-beginning of year	<u> 241,244</u>
Net assets-end of year	<u><u>\$ 248,189</u></u>



FINANCIAL SECTION

NOTES TO FINANCIAL STATEMENTS



TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Florence, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and council. The basic financial statements of the town include the funds of all organizational entities for which the Town Council has oversight responsibility or financial accountability and are consequently determined to be included in the Town's financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, the Financial Reporting Entity. The Town provides basic government services to its citizens including roads, water, sewer, sanitation, parks and recreation facilities, police and fire.

Individual Component Units – Blended

The Merrill Ranch Community Facilities District #1 and Merrill Ranch Community Facilities District #2 were formed by petition to the Town Council on December 19, 2005 and November 21, 2005, respectively. The purpose of the Districts is to acquire or construct public infrastructure in specified areas of the Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts may levy taxes and issue bonds independently of the Town. Property owned in the designated areas is assessed for the Districts' property taxes, and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors of the Districts. The Town has no liability for the District's debt. For reporting purposes, the transactions of the Districts are included as governmental type funds as if they were part of the Town's operations.

No Separate financial statements were prepared for the Districts.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state-shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for service, special assessments and investment income associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds:

General Fund - This fund is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway User Fund – Special Revenue Fund - This fund is used to account for the Town's share of tax revenues that are legally restricted to the maintenance of highways within the Town's boundaries.

Impact Fees Fund - This fund collects fees to help defray the costs of development of infrastructure.

Community Facilities Districts - Debt Service Fund - These fund accounts for the debt portion of the Town's Community Facilities Districts which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

Capital Improvement Fund - This fund accounts for all the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Community Facilities Districts - Capital Improvements Fund - This fund accounts for all the acquisition and construction portion of the Town's Community Facilities District which are component units that provide general infrastructure and capital assets for the property within each District's boundaries.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reports the following major proprietary funds:

Water Fund - This fund is used to account for the Town's water related operations.

Sewer Fund - This fund is used to account for the Town's sewer related operations.

Sanitation Fund - This fund is used to account for the activities of the Town's sanitation operations.

North Florence Sewer Fund - This fund is used to account for the Town's north sewer related operations.

The Town reports the following fiduciary fund:

Pension Trust Fund - This Pension Trust Fund is used to account for the Town's Volunteer Firefighter's Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity. The Town, as well as, the Town's firefighters make contributions to the fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Town follows GASB guidance as applicable to its proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprises fund are charges to customers for water, wastewater, and sanitation services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town's non-major funds are as follows:

Special Revenue Funds

Construction Tax

Food Tax

Economic Development

Court Enhancement

Grants

Community Facilities Districts

Debt Service Funds

Debt Service Fund

Fiduciary funds are reported by fund type.

D. Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Town upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

E. Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principle and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The State's investment pool is managed by the State Treasurer's office with no regulatory oversight. The pool is not required to register with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The fair value of a participant's position in the pool approximates the value of that participant's pool share.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans). There were no interfund receivables or payables at June 30, 2006.

All trade and property tax receivables are shown net of allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivables allowance for uncollectibles.

Property taxes are levied by the Town and collected by the Pinal County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquent date. Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

G. Prepaid Items

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements other than buildings	20-70
Vehicles, machinery and equipment	3-10

I. Compensated Absences

The Town's employee vacation and sick leave policies provide for granting vacation and sick leave with pay. Sick leave and vacation benefits vest at the employee's current rate of pay. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation and retirements. Resources from the General Fund are generally used to liquidate the governmental funds liabilities for compensated absences.

J. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of the fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management's intended use of resources and reflect actual plans approved by the government's senior management. At June 30, 2006, the Town reserved fund balance for several various purposes. There are no reported designations.

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

At June 30, 2006, the Town had \$2,316 of cash on hand. The carrying amount of the Town's cash in bank totaled \$6,879,352 and the bank balance was \$7,013,198. The Town's deposits at June 30, 2006 were covered by Federal Depository Insurance to the extent of \$100,000. Deposits of \$6,913,198 were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the depositor-government's name.

Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The Town invests in the Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 240 days. The net asset value per share of the pool at June 30, 2006 was \$1.00.

Funds held in the State Treasurer's Local Government Investment Pool represent a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk. At June 30, 2006, the Town's funds invested with the State Treasurer totaled \$17,210,544.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Town's Community Facilities Districts have \$4,614,169 invested with Wells Fargo Brokerage Services. The accounts are invested in a money market fund that invests in U.S. government obligations and repurchase agreements.

Other investments that the Town owns belong to the Town's Volunteer Fire Department. These funds are held by Securian Retirement Services and consist of a money market fund and a variable annuity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The governmental fund investments have no interest rate risk as there are no stated maturities. Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of Town's fiduciary fund investments by maturity:

Investment Type	Total	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Money Market Funds	\$ 40,251	\$ 40,251	\$ -	\$ -	\$ -
Variable Annuity	209,735	-	-	209,735	-
	<u>\$ 249,986</u>	<u>\$ 40,251</u>	<u>\$ -</u>	<u>\$ 209,735</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments of the governmental funds are not rated. Presented below is the actual rating as of year-end for each investment type in the fiduciary fund.

Investment Type	Total	Ratings as of Year-End			
		AAA	AA-	A+	Unrated
Money Market Funds	\$ 40,251	\$ -	\$ -	\$ -	\$ 40,251
Variable Annuity	209,735	-	209,735	-	-
	<u>\$ 249,986</u>	<u>\$ -</u>	<u>\$ 209,735</u>	<u>\$ -</u>	<u>\$ 40,251</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 – RECEIVABLES

Receivables, net of allowance for uncollectibles as of year-end for the Town's individual major governmental funds, nonmajor governmental funds in the aggregate are as follows:

	General	Highway		Community		Non-Major	
	Fund	User	Impact	Facilities Districts-	Capital	Governmental	Total
Receivables:	Fund	Fund	Fees	Debt Service	Improvements	Funds	
Taxes	\$ 644,965	\$ 300,522	\$ -	\$ -	\$ -	\$ -	\$ 945,487
Interest	31,013	29,072	14,109	-	-	14,738	88,932
Accounts	135,692	7,117	-	-	910	11,117	154,836
Special assessments	-	-	-	5,019,000	-	695,098	5,714,098
	<u>811,670</u>	<u>336,711</u>	<u>14,109</u>	<u>5,019,000</u>	<u>910</u>	<u>720,953</u>	<u>6,903,353</u>
Less:							
Allowance	-	-	-	-	-	-	-
Net receivables	<u>\$ 811,670</u>	<u>\$ 336,711</u>	<u>\$ 14,109</u>	<u>\$ 5,019,000</u>	<u>\$ 910</u>	<u>\$ 720,953</u>	<u>\$ 6,903,353</u>

The following table summarizes the Town's receivables for the enterprise funds as of June 30, 2006.

	Water	Sewer	Sanitation	North Florence Sewer	Total
Receivables:	Fund	Fund	Fund	Fund	
Interest	\$ 15,783	\$ 14,063	\$ 1,738	\$ 4,844	\$ 36,428
Due from other governments	-	555,908	-	-	555,908
Accounts	<u>153,330</u>	<u>216,392</u>	<u>46,313</u>	<u>19,373</u>	<u>435,408</u>
	<u>169,113</u>	<u>786,363</u>	<u>48,051</u>	<u>24,217</u>	<u>1,027,744</u>
Less:					
Allowance	<u>(2,503)</u>	<u>(1,000)</u>	<u>(1,762)</u>	<u>(486)</u>	<u>(5,751)</u>
Net receivables	<u>\$ 166,610</u>	<u>\$ 785,363</u>	<u>\$ 46,289</u>	<u>\$ 23,731</u>	<u>\$ 1,021,993</u>

Revenues of the enterprise funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water	\$ 412
Uncollectibles related to sewer	1,731
Uncollectibles related to sanitation	626
Uncollectibles related to North Florence sewer	<u>138</u>
Total uncollectibles for the current year	<u>\$ 2,907</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2006 follows.

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 9,930,781	\$ 11,320,038	\$ (17,627)	\$ 21,233,192
Construction in progress	-	617,184	-	617,184
Total capital assets not being depreciated	9,930,781	11,937,222	(17,627)	21,850,376
Capital assets, being depreciated:				
Buildings and improvements	22,977,222	322,986	(88,716)	23,211,492
Vehicles, furniture and equipment	4,253,428	583,507	(188,275)	4,648,660
Total capital assets being depreciated	27,230,650	906,493	(276,991)	27,860,152
Less accumulated depreciation for:				
Buildings and improvements	(6,624,084)	(1,191,014)	5,991	(7,809,107)
Vehicles, furniture and equipment	(3,035,031)	(339,024)	180,147	(3,193,908)
Total accumulated depreciation	(9,659,115)	(1,530,038)	186,138	(11,003,015)
Total capital assets, being depreciated, net	17,571,535	(623,545)	(90,853)	16,857,137
Governmental activities capital assets, net	\$ 27,502,316	\$ 11,313,677	\$ (108,480)	\$ 38,707,513

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – CAPITAL ASSETS

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 336,674	\$ 57,399	\$ -	\$ 394,073
Construction in progress	-	5,136,983	-	5,136,983
Total capital assets not being depreciated	336,674	5,194,382	-	5,531,056
Capital assets, being depreciated:				
Buildings	5,409,967	-	-	5,409,967
Improvements other than buildings	5,146,063	39,439	(441,957)	4,743,545
Vehicles, machinery and equipment	1,508,673	7,294	(14,490)	1,501,477
Total capital assets being depreciated	12,064,703	46,733	(456,447)	11,654,989
Less accumulated depreciation for:				
Buildings	(4,204,836)	(235,100)	-	(4,439,936)
Improvements other than buildings	(516,111)	(60,032)	-	(576,143)
Vehicles, machinery and equipment	(1,141,674)	(110,056)	14,486	(1,237,244)
Total accumulated depreciation	(5,862,621)	(405,188)	14,486	(6,253,323)
Total capital assets, being depreciated, net	6,202,082	(358,455)	(441,961)	5,401,666
Business-Type activities capital assets, net	\$ 6,538,756	\$ 4,835,927	\$ (441,961)	\$ 10,932,722

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 85,800
Public safety	244,144
Highway and streets	1,113,948
Culture and recreation	69,629
Community development	16,517
Total depreciation expense	<u>\$ 1,530,038</u>
Business-type activities	
Water	\$ 184,856
Sewer	98,132
Sanitation	54,757
North Florence sewer	67,443
Total depreciation expense	<u>\$ 405,188</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – CAPITAL LEASES

The town has entered into lease agreements for a number of capital purchases. These leases provide bargain purchase options and transfer of title at the end of the lease term. The Town is a lessee in a lease/purchase line of credit. The agreement allows for the Town to draw up to \$600,000 to acquire equipment. The agreement expires June 30 of each fiscal year with automatic one year extensions for 10 successive years with the final renewal term ending on January 15, 2011 unless terminated by terms stipulated in the agreement. Payments include principal and interest at the bank's prime rate less .25 percent. At June 30, 2006 the interest rate was 8.0 percent and the available credit was \$576,138.

Accordingly, the assets have been capitalized at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through capital lease are as follows:

Asset:		
Machinery and Equipment	\$	467,543
Less: accumulated depreciation		(302,793)
Total	\$	<u>164,750</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2007	\$ 58,466	\$ 5,346
2008	32,421	2,303
2009	33,408	1,317
2010	25,721	323
Total	<u>\$ 150,016</u>	<u>\$ 9,289</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CERTIFICATES OF PARTICIPATION

On January 30, 1997, certificates of participation totaling \$2,495,000 were issued. The certificates evidence undivided proportionate interests in lease payments to be made under a lease agreement. The proceeds of the certificates were used by the Town for the construction of the town hall and other facilities. The certificates bear interest at rates from 3.75 – 5.40 percent, payable semiannually.

The certificates of participation as of June 30, 2006, will mature as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2007	\$ 210,000	\$ 43,575
2008	225,000	32,153
2009	235,000	19,845
2010	250,000	6,750
Total	<u>\$ 920,000</u>	<u>\$ 102,323</u>

NOTE 7 – NOTES PAYABLE

The Town has a note payable to a private party for the purchase of land. The note is payable in annual installments of \$69,748 including interest at 6%. The note is secured by a deed of trust, assignments of rents, security agreement and fixture filings. The balance was \$702,394 at June 30, 2006.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of a new sewer plant. As of June 30, 2006, the Town could borrow up to \$7,500,000. As of June 30, 2006, the Town has borrowed \$5,093,191. Payments are due semi-annually including interest at 3.339%.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 – NOTES PAYABLE

The annual debt service requirements to maturity as of June 30, 2006, are as follows:

Year Ending, June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 27,604	\$ 42,144	\$ 267,489	\$ 200,029
2008	29,260	40,487	276,420	191,097
2009	31,016	38,732	285,650	181,867
2010	32,877	36,871	295,187	172,330
2011	34,849	34,898	305,044	162,473
2012 - 2016	208,236	140,502	1,684,974	652,611
2017 - 2021	278,667	70,071	1,978,427	351,128
2022 - 2023	59,884	3,593	-	-
Total	<u>\$ 702,394</u>	<u>\$ 407,298</u>	<u>\$ 5,093,191</u>	<u>\$ 1,911,535</u>

NOTE 8 – BONDS PAYABLE

Bonds payable at June 30, 2006, consisted of the outstanding special assessment bonds presented below.

The bonds issued in 1994 to acquire Arizona Sierra Utility have an outstanding principal of \$765,000. The bonds are secured and payable from special assessments levied against the real property benefited by said improvements. If the assessments are not paid, the properties subject to such assessments are sold at auction. If there is no purchaser for any property offered for sale, the Town will get ownership of the property subject to any tax liens and will be liable for the remaining debt. The Town Council is required to appropriate from the General Fund of the Town the amount of the total unpaid assessments or the amount of each semiannual assessment until the total debt is paid.

Community Facilities Districts (CFDs), special purpose districts created specifically to acquire or construct public infrastructure within specified areas of the Town, are authorized under state law to issue General Obligation (GO) bonds to be repaid by property taxes levied on property within the districts. CFDs are created by petition of the Town Council by property owners within the area to be covered by the district and debt may be issued only after approval of the voters within the district.

In June 2006 the Merrill Ranch Community Facilities District #2 issued \$2,464,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 – BONDS PAYABLE

In June 2006 the Merrill Ranch Community Facilities District #1 issued \$2,555,000 of GO bonds to finance capital improvements within the district. These bonds will be repaid by the property owners within the district. The Town of Florence has no obligation for the debt other than the administration of collection of the property taxes and payment of the debt service on behalf of the district.

A summary of long-term bond debt payable at June 30, 2006, follows:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2006	Due Within One Year
Special Assessment	8.45%	01/01/19	\$ 765,000	\$ 30,000
Special Assessment	4.30 - 5.30%	07/01/30	2,555,000	-
Special Assessment	4.30 - 5.30%	07/01/30	2,464,000	-

Annual debt service requirements to maturity on governmental bonds payable at June 30, 2006 are summarized as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2007	\$ 30,000	\$ 63,375
2008	40,000	319,670
2009	159,000	314,148
2010	170,000	305,439
2011	175,000	296,012
2012 - 2016	1,055,000	1,312,111
2017 - 2021	1,205,000	963,364
2022 - 2026	1,245,000	657,840
2027 - 2031	1,705,000	280,120
Total	<u>\$ 5,784,000</u>	<u>\$4,512,079</u>

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 795,000	\$ 5,019,000	\$ 30,000	\$ 5,784,000	\$ 30,000
Notes payable	728,436	-	26,042	702,394	27,604
Certificates of participation	1,120,000	-	200,000	920,000	210,000
Capital leases	236,710	-	86,694	150,016	58,466
Compensated absences	134,700	187,353	174,661	147,392	147,392
Governmental activities long-term liabilities	<u>\$ 3,014,846</u>	<u>\$ 5,206,353</u>	<u>\$ 517,397</u>	<u>\$ 7,703,802</u>	<u>\$ 473,462</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Notes payable	\$ 672,695	\$ 4,679,342	\$ 258,846	\$ 5,093,191	\$ 267,489
Compensated absences	24,498	34,052	35,885	22,665	22,665
Business-type activities long-term liabilities	<u>\$ 697,193</u>	<u>\$ 4,713,394</u>	<u>\$ 294,731</u>	<u>\$ 5,115,856</u>	<u>\$ 290,154</u>

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable/payable:

At June 30, 2006, there were no interfund balances.

Interfund transfers:

Fund	Transfers Out	Transfers In
General Fund	\$ 4,626,609	\$ 493,874
Highway User	130,260	9,620
Capital Improvements	0.00	4,703,260.00
Non-Major Governmental Funds	241,793	61,644
Water	133,404	-
Sewer	47,616	-
Sanitation	44,028	-
North Sewer	44,688	-
Total	<u>\$ 5,268,398</u>	<u>\$ 5,268,398</u>

All transfers made during the year were routine in nature and consistent with the activities of the fund making the transfer.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by the Workers' Compensation Insurance Fund for potential worker-related accidents.

NOTE 12 – CONTINGENT LIABILITIES

Federal and State grants and loans – The Town has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2006; however, the Town expects no material disallowances of expenditures.

Lawsuits – The Town is not a defendant in any lawsuits.

NOTE 13 – RETIREMENT PLANS

All full-time Town employees are covered by one of two contributory retirement and pension plans, which are administered by the State of Arizona under State Statute.

Arizona State Retirement Plan

Plan Description - The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 13 – RETIREMENT PLANS (Continued)

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the years ended June 30, 2006, 2005 and 2004 active ASRS members and the Town were each required by statute to contribute at the actuarially determined rates of 7.4, 5.7 and 5.7 percent (rate includes .50 for long-term disability) respectively of the member's annual covered payroll. For the year ended June 30, 2003, the actuarially determined rate of 2.49 (2.00 percent retirement and 0.49 percent long-term disability) was in effect. The Town's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004 were \$195,721, \$134,019, and \$131,171, respectively, which were equal to the required contributions for the year.

Arizona Public Safety Personnel Retirement System

Plan Description - The *Public Safety Personal Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Town contributes to one PSPRS plan for police and one for firefighters. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling 602-255-5575.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 7.46% and 8.55% of the covered payroll to the Plan for the Police and Firefighters, respectively.

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 13 – RETIREMENT PLANS (Continued)

The most recent actuarial valuation available is for fiscal year end June 30, 2005.

Annual Pension Cost - The Town's pension cost for the agent plan for the year ended June 30, 2006, and related information follows:

Contribution Rates:	<u>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Town	2.39%	8.18%
Plan Members	7.65%	7.65%
Actuarial valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	6% - 9%	6%-9%
Includes inflation at cost-of-living adjustment	5%	5%
Amortization method	Level Percentage Open	Level Percentage Open
Remaining amortization period	Open 20 Years	Open 20 Years
Asset valuation method	Smoothed Market	Smoothed Market
Post retirement benefit increases	Based on Income	Based on Income

Trend Information - Information for the PSPRS plan as of the most recent actuarial valuations follows:

<u>Plan</u>	<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS - Police	2005	18,941	100.0%	-
	2004	14,089	100.0%	-
	2003	12,982	100.0%	-
PSPRS - Fire	2005	33,764	100.0%	-
	2004	31,484	100.0%	-
	2003	26,837	100.0%	-

Funding Progress - An analysis of funding progress for each of the agent plan as most recent actuarial valuations, June 30, 2006 follows:

TOWN OF FLORENCE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

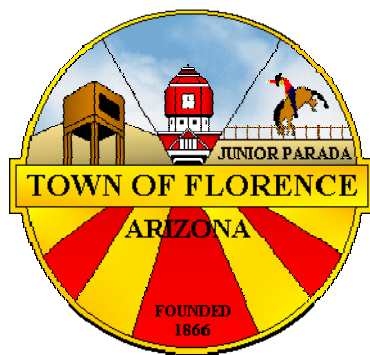
NOTE 13 – RETIREMENT PLANS (Continued)

PSPR - Florence Police Plan:

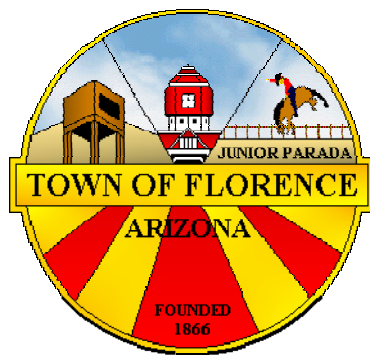
Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2005	\$ 1,939,292	\$ 1,658,469	\$ 280,823	116.9%	\$ 769,972	0%
2004	1,836,298	1,078,747	757,551	170.2%	722,939	0%
2003	1,788,523	923,168	865,355	193.7%	693,576	0%

PSPR - Florence Fire Plan:

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funding Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)
2005	\$ 408,330	\$ 229,415	\$ 178,915	178.0%	\$ 411,205	0%
2004	389,215	245,967	143,248	158.2%	312,594	0%
2003	370,308	234,099	136,209	158.2%	361,222	0%



COMPLIANCE REPORT





HENRY & HORNE, LLP
Advisors to Business

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

The Honorable Mayor and Council
Town of Florence, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the "Town"), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Florence's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

The limited number of personnel prevents a proper segregation of accounting functions necessary to assure adequate internal controls. This is not unusual in entities of this size. Management should be constantly aware of this condition and realize that concentrations of duties in a limited number of personnel could create control situations which would allow personnel to misappropriate assets.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Town of Florence in a separate letter dated September 8, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Town of Florence, in a separate letter dated September 8, 2006

This report is intended for the information and use of the Honorable Mayor, Members of the Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



September 8, 2006